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SUBJECT: IMF WORRIED ABOUT CHAD FISCAL SUSTAINABILITY

REF: NDJAMENA 0196

¶1. (SBU) Summary: A visiting IMF team and World Bank mission leader said that maintaining fiscal sustainability in Chad will continue to be difficult, especially when substantial oil revenue is about to be received (oil taxes paid March 30 come to USD \$420 million.) Major concerns include: increased spending in the military sector; procurement irregularities; overspending on infrastructure and an expected decline in oil profit taxes in 2008. While the group left Ndjamena without reaching agreement on the conditions for renewal of Chad's IMF Poverty Reduction and Growth Facility (PGRF), talks will continue in Washington. End Summary.

¶2. (U) On March 19 and 24, Ambassador met with the World Bank mission leader Marie-Francoise Marie-Nelly and with the visiting IMF team in N,djamena. Echoing themes we have heard before (ref A), Marie-Nelly said that Chad spent a large part of the FY2006 budget on military expenditures (\$84 billion CFA - about USD 120 million - 4.3 percent of GDP). Entering 2007, the GoC has already spent the \$20 billion CFA - about USD 40 million - targeted for military expenditures for the whole year. The IMF representative noted that asking the government to control military spending during a time of rebel activity will be difficult, but Chad cannot afford to disrespect the limits of the budget for long or there will be serious consequences.

¶3. (U) Coupled with the high military expenditures, the team commented that the 30 March oil payment will be USD \$100 million lower than expected. Marie-Nelly and IMF economists stated that the parties (i.e. Esso, the college, GoC) all understand that the total payment for this year is USD \$815 million. According to the IMF, the \$815 million will be divided into one \$420 million payment (expected March 30) and \$135 per quarter thereafter. The IMF representative optimistically said, &Once the money hits the account, everything should go as planned.8 He said that his team,s message to the government was simple: limit government spending despite the unsettled security environment; and abide by the budget. While the group left Ndjamena without reaching agreement on the conditions for renewal of Chad's IMF Poverty Reduction and Growth Facility (PGRF), talks will continue in Washington. The team was able to work out arrangement with Chadian authorities for creation of the special stabilization account to hold surplus funds in time

for the receipt of the March 30 tax payment.

¶4. (U) The World Bank and IMF also noted procurement irregularities and the "efficiency" of the Minister of Infrastructure as particular challenges facing Chad. Procurement irregularities) a lack of competitive bidding and overpriced goods and services) demonstrate a weakness in controls, they said. Often the awards are given to friends of the government and outside firms are restricted from open competition on public contracts. This has become a common form of corruption in Chad. Additionally, the Minister of Infrastructure may be preparing a new budget which would include even more emphasis on infrastructure projects. Some worry that these new contracts will continue to take resources away from poverty reduction projects and instead will fund "roads to nowhere."

¶5. (U) The group voiced concern that the government of Chad does not fully appreciate that oil revenues are projected to decline significantly after 2007. "2007 is an exceptional year and it will not be repeated," the IMF rep said. As with tax payments in the United States, each quarter the oil companies pay 25 percent of the previous year taxes as an estimated tax. 2006 was extremely profitable (record oil prices) and the oil companies paid only the estimated tax for 2005, they said. In 2007, the IMF explained, the oil companies will make up the difference between what is owed and the actual taxes. In 2007, the price of oil has dropped, so in 2008, the oil companies will pay considerably less -- if anything -- in profit taxes. The IMF emphasized that in real dollars, the GoC could have its oil tax income from 2007 to 2008 drop from \$1 billion to \$300 million. IMF said that the GoC has no planning mechanisms in place that can cope

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with this type of volatility. The World Bank called on the GoC to see the oil revenues as an opportunity for Chad to reduce poverty and to use the oil resources for priority spending.

Comment

¶6. (SBU) The fact that discussions continue on the possibility of Chad's renewal of the PGRF is a positive sign, but most observers are deeply pessimistic that the GOC will be able to control spending sufficient to reach agreement.
WALL